H.R. 1125, the Start Saving Sooner Act

Representative Richard L. Hanna (NY-22) | www.hanna.house.gov

The Problem:

Americans across age groups continue to struggle with stagnant wages, rising cost-of-living expenses, and a slow growing economy. Due to these and other factors, such as increased life expectancy, too many Americans reach retirement age with insufficient personal savings to maintain the quality of life to which they are accustomed during their working years.

- In 2010, roughly 75% of those nearing retirement had less than $30,000 in their personal retirement accounts, according to research from the New School.
- The Boston College Center for Retirement Research noted that nearly half of all Americans may not be able to maintain their standard of living in retirement.
- This makes individuals more dependent on government. Case in point: 52 percent of elderly married Social Security beneficiaries and 74 percent of single seniors receive more than half of their income solely from Social Security. Of this, 22 percent of married couples and 47 percent of singles rely on Social Security for at least 90 percent of their income. The average annual benefit is $15,600.

By 2033, the number of older Americans will increase from 47 million today over 77 million. This growing trend causes real hardship for older Americans and their families and it strains important demographically- and financially-challenged programs like Social Security.

Current federal law exacerbates this problem because one of the most advantageous retirement planning options – the Roth IRA – cannot be owned by children under the age of 18 if, like most youth, they do not have earned income wages. In this case, the status quo is preventing children and families from beginning to save and invest in their retirement at a young age.

A Solution—the Start Saving Sooner Act:

Research shows that children born to low-income parents who are good savers are more likely to move up the economic ladder and that even when controlled for income and demographic factors, youth who own financial accounts are seven times more likely to attend college.

If Roth IRA retirement accounts could be opened for children from birth to the age of eighteen, these individuals are likely to acquire substantially more tax-free assets by retirement age than their peers. Children who possess accounts will benefit from longer exposure to savings concepts like compound interest, and can be expected to attain higher levels of financial literacy, college graduation, and retirement security in adulthood.

Greater private retirement savings for Americans of all ages will increase personal financial security and responsibility, reducing the likelihood that seniors will need to rely solely on Social Security for their retirement income. Federal policy should better enable parents, guardians and families of all income levels to encourage youth saving and investment for retirement at an earlier age. Americans should be free to start saving sooner for their own retirement.

The ***Start Saving Sooner Act*** would:

- ✓ <u>Amend federal law to enable the creation of voluntary Young Savers Accounts (YSAs)</u> for individuals between the ages of zero and 18. YSAs would be administered like regular Roth IRAs and would turn into Roth IRAs at age 18.

- ✓ <u>Set individual and account contribution limits</u> in accordance with existing caps for individual contributors (parents, relatives, etc.) and Roth IRA accounts generally.

- ✓ <u>Make YSA contributions eligible for the Saver's Credit</u>. The Saver's Credit is available for individuals who make contributions to retirement plans (such as 401(k) plans and IRAs) and who have income under $30,000 for single filers and $60,000 for married filers. The amount of the credit is 50%, 20% or 10% of an individual's contributions up to $2,000, depending on adjusted gross income levels. For qualified YSA contributions, any refund attributable to the Saver's Credit would be deposited directly into the YSA.

- ✓ <u>Provide information about YSAs to parents</u> along with Social Security card application for newborn children.

***<u>Example</u>*:**

John Smith is born and his parents open a Young Savers Account in his name. His parents deposit **$50** each month until John turns 18. Assuming an average **10 percent** rate of return, on his eighteenth birthday the account balance would be nearly **$30,000**.

Even if there are no further contributions, when John reaches retirement age at 67, the balance would be more than **$3 million**. John could then withdraw these funds from his account tax-free to supplement his retirement.